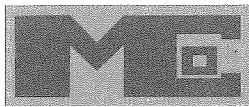


ADAIR COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017
with
INDEPENDENT AUDITOR'S REPORT

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**M A T H E R
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

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Louisville, KY 40222

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Adair County School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comments Spreadsheet*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Adair County School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension information on pages 4 through 8, 42 through 43, and 44 through 49, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of receipts, disbursements, and due to student groups, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of receipts, disbursements, and due to student groups, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 9, 2017

ADAIR COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

Year ended June 30, 2017

The Adair County School District (District) offers the following narrative of the financial statements for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit report.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$3,773,479 which includes General Fund balance of \$3,233,509, Special Revenue Funds of \$107,349, Facility Support (FSPK) of \$46, Capital Outlay of \$809, and Construction of \$431,766.
- The General Fund had \$21,115,327 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes.
- The District has been awarded a WRSI Grant in the amount of \$238,000. This grant will provide medical equipment for our Nursing program, EMT program, and to make available classes for Physical Therapist Assistants. The Adair County Board of Education has partnered with many Businesses, Colleges, and Medical Organizations to make this Grant work. Our students will graduate High School with many of their college hours behind them.
- The District is looking at trying to upgrade their Softball and Baseball facilities. We are working with the Architect to see what our options are and the cost to the District.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

The government-wide financial statements are designed to provide an overview of the District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities. The increases or decreases in assets and liabilities over time will be helpful in determining the financial status of the District.

The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenue. The government-wide financial statements of the District include instruction, support services, plant and operations, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements are a grouping of related accounts that are used to maintain control over resources for specific activities and objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure compliance with financial and legal requirements. All of the District's funds are divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are to be set up to help aid in supporting students and teachers in the education process. The proprietary funds are our school food service operations. All other activities of the District are considered as governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 18 of this report.

The notes provide additional information to the understanding of the data provided within our financial statements. The notes for the financial statements can be found on pages 19 through 41 of this report.

Total Assets	\$ 38,639,910
Total Liabilities	\$ 33,800,146
Total Net Position	\$ 7,332,596

Comments on Budget Comparisons

- The District's 2017 revenues were \$27,054,748.
- The District's 2017 expenditures were \$27,740,136.
- The District's financing from other sources were \$572,485.
- The fund balance at the end of the 2017 fiscal year for the General Fund was \$3,255,948. This is approximately an 11% contingency.

The following table is a summary/breakdown of the District's General Fund revenue and expenditures for the year ended June 30, 2017.

Revenues	
Local revenue	\$ 4,618,461
State and Federal revenue	<u>16,496,866</u>
Total revenues	\$ 21,115,327

Expenditures

Instruction	\$ 13,112,235
Student support services	690,284
Instructional staff support services	572,088
District administration	890,524
School administration	1,046,907
Business support services	602,402
Plant and operations and maintenance	2,399,026
Student transportation	1,975,622
Debt Service	199,594
Community services	<u>57,814</u>

Total expenditures 21,546,496

Excess of expenditures over revenues \$ (431,169)

Total Governmental Funds

Total Revenue	\$ 27,054,748
Total Expenditures	27,740,136
Total Other Financing Sources	<u>572,485</u>

Excess of expenditures over revenue and other financing sources \$ (112,903)

Grant (Fund II) Information

The following is a list of major Grants and the amounts that were received during the 2017 fiscal year.

State Grants

KECSAC	\$ 225,000
Extended School Services	77,502
Family Resource Centers	222,350
Gifted and Talented	39,290
Kera-Preschool	263,340
Professional Development	61,522
Textbooks	45,074
School Safety	42,740
KY ASAP	15,500
KETS	143,544
Dual Credit	25,874

Federal Grants

Title I	\$ 1,286,807
Migrant	109,785
Title I – Part D	22,790
Title I – Part D Subpart 2	36,393
Idea B Basic	558,138
Idea B Preschool	24,278
Vocational Education	28,021
Rural and Low Income	55,031
Title II – Quality Teacher	174,490
21 st Century	192,700
Title III	3,164

Local Grants

WHAS Grant	\$ 30,000
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The Title I grant was allocated to our elementary schools, our intermediate school, and our middle school. These supplemental funds are used for salaries, supplies, parent involvement activities, travel, and professional development. These funds are used school wide. The primary focus of the Title I program is based on the academic need of each individual school.

The Vocational Funds are allocated between the Business Department, the Vocational Ag. Department, the Technology Department, and the Home Ec. Department at the Adair County High School. These funds were used for equipment, computers, and travel for the teachers.

The IDEA B Basic, IDEA B Preschool, and KERA Preschool funds are generated on the December 1 child count. These funds are used for salaries, supplies, special equipment, professional development, consultant fees, and travel expenses.

The Title II – Quality Teacher Grant was incorporated with the Title I funds to help student achievement at all levels from elementary school to the high school.

The WHAS Grant funds were used to pay a salary for a Special Education Instructor.

The KECSAC funds are used at the Adair County Youth Development Center. These funds are used for salaries for teachers and supplies for the students housed at that facility.

The 21st Century funds are used at the Col. William Casey and the Adair County Elementary after school programs that help to make those students more rounded.

School Food Services Fund

This year our District has offered CEP for all Adair County Students.

Food Service Operating Revenue:

Lunch Sales	\$ 161,621
Federal Grants	1,501,383
State Grants	177,950
Interest	1,405
Donated Commodities	115,222
Loss of assets	<u>-</u>

Total	<u>\$ 1,957,581</u>
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Total Expenses:

Salaries, wages and benefits	\$ 814,762
Supplies	1,032,288
Contract services	23,846
Depreciation	35,880
Other	<u>4,507</u>

Total	<u>\$ 1,911,283</u>
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Net change in position	<u>\$ 46,298</u>
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Net position as of June 30, 2017	<u>\$ 522,943</u>
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If you have any questions, please contact the Superintendent or Finance Director at (270) 384-2476, or 1204 Greensburg Street, Columbia, Kentucky 42728.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash	\$ 3,773,479	\$ 357,081	\$ 4,130,560
Receivables:			
Taxes	129,086	-	129,086
Other	16,507	-	16,507
Intergovernmental – State	24,220	-	24,220
Intergovernmental – Federal	115,075	-	115,075
Net capital assets	<u>34,058,600</u>	<u>165,862</u>	<u>34,224,462</u>
Total assets	38,116,967	522,943	38,639,910
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refundings	467,470	-	467,470
Deferred outflows of resources related to pension expense	<u>2,296,562</u>	<u>-</u>	<u>2,296,562</u>
Total deferred outflows of resources	2,764,032	-	2,764,032
LIABILITIES			
Accounts payable	56,576	-	56,576
Accrued payroll liabilities	85	-	85
Unearned revenue	246,644	-	246,644
Current maturities of bond obligations	1,833,782	-	1,833,782
Current portion of accumulated sick leave	66,493	-	66,493
Interest payable	375,184	-	375,184
Noncurrent net pension liability	6,476,613	-	6,476,613
Noncurrent maturities of bond obligations	23,909,727	-	23,909,727
Noncurrent portion of accumulated sick leave	767,049	-	767,049
Noncurrent portion of accrued expense	<u>67,993</u>	<u>-</u>	<u>67,993</u>
Total liabilities	33,800,146	-	33,800,146
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension expense	271,200	-	271,200
NET POSITION			
Invested in capital assets, net of related debt	7,939,907	165,862	8,105,769
Restricted for:			
Capital expenditures/debt service	432,621	-	432,621
Unrestricted deficit	<u>(1,562,875)</u>	<u>357,081</u>	<u>(1,205,794)</u>
Total net position	\$ 6,809,653	\$ 522,943	\$ 7,332,596

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
FUNCTIONS/PROGRAMS						
Governmental activities						
Instruction	\$ 16,534,291	\$ -	\$ 6,711,993	\$ -	\$ (9,822,298)	\$ (9,822,298)
Student support services	701,701	-	174,224	-	(527,477)	(527,477)
Instructional staff support services	681,147	-	261,095	-	(420,052)	(420,052)
District administration	902,766	-	57,160	-	(845,606)	(845,606)
School administration	1,061,493	-	285,523	-	(775,970)	(775,970)
Business support services	602,997	-	114,609	-	(488,388)	(488,388)
Plant operations and maintenance	3,014,784	-	214,691	-	(2,800,093)	(2,800,093)
Student transportation	1,977,964	-	350,034	-	(1,627,930)	(1,627,930)
Community services	308,318	-	250,504	-	(57,814)	(57,814)
Interest	731,833	-	-	731,833	-	-
Bond issue costs	11,306	-	-	-	(11,306)	(11,306)
Total governmental activities	26,528,600	-	8,419,833	731,833	(17,376,934)	(17,376,934)
Business-type activities						
Food service	1,911,283	161,621	1,794,555	-	-	44,893
Total business-type activities	1,911,283	161,621	1,794,555	-	-	44,893
Total primary government	\$ 28,439,883	\$ 161,621	\$ 10,214,388	\$ 731,833	(17,376,934)	(17,332,041)
General revenues						
Taxes:						
Property					3,379,924	3,379,924
Motor vehicle					535,053	535,053
Utilities					945,228	945,228
Earnings on investments					30,298	31,703
State grants					12,843,609	12,843,609
Federal grants					49,969	49,969
Other local amounts					119,001	119,001
Gain on disposals of capital assets					2,930	2,930
Total general revenues					17,906,012	17,907,417
Change in net position					529,078	575,376
Net position as of July 1, 2016					6,280,575	6,757,220
Net position as of June 30, 2017					\$ 6,809,653	\$ 7,332,596

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2017

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
ASSETS							
Cash	\$ 3,233,509	\$ 107,349	\$ 809	\$ 46	\$ 431,766	\$ -	\$ 3,773,479
Receivables:							
Taxes	129,086	-	-	-	-	-	129,086
Other	16,507	-	-	-	-	-	16,507
Intergovernmental							
– State	-	24,220	-	-	-	-	24,220
Intergovernmental							
– Federal	-	115,075	-	-	-	-	115,075
Total assets	\$ 3,379,102	\$ 246,644	\$ 809	\$ 46	\$ 431,766	\$ -	\$ 4,058,367
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 56,576	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,576
Accrued payroll liabilities	85	-	-	-	-	-	85
Unearned revenue	-	246,644	-	-	-	-	246,644
Current portion of accumulated sick leave	66,493	-	-	-	-	-	66,493
Total liabilities	123,154	246,644	-	-	-	-	369,798
Fund balances							
Restricted for:							
Capital expenditures	-	-	-	-	431,766	-	431,766
Capital expenditures/ debt service	-	-	809	46	-	-	855
Unassigned	3,255,948	-	-	-	-	-	3,255,948
Total fund balances	3,255,948	-	809	46	431,766	-	3,688,569
Total liabilities and fund balances	\$ 3,379,102	\$ 246,644	\$ 809	\$ 46	\$ 431,766	\$ -	\$ 4,058,367

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2017

Total fund balances – governmental funds	\$ 3,688,569
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$50,549,450, and the accumulated depreciation is \$16,490,850.	34,058,600
Deferred loss on bond refundings is not a current financial resource and therefore is not reported as a deferred outflows of resources in governmental funds.	467,470
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(25,743,509)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(767,049)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(375,184)
Noncurrent net pension liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. The deferred outflows of resources related to pension expense total \$2,296,562, the deferred inflows of resources related to pension expense total \$271,200, and the net pension liability on the statement of net position is \$6,476,613.	(4,451,251)
Noncurrent portion of accrued expense is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(67,993)</u>
Total net position – governmental activities	<u>\$ 6,809,653</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS Year ended June 30, 2017

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 2,997,126	\$ -	\$ -	\$ 382,798	\$ -	\$ -	\$ 3,379,924
Motor vehicle	535,053	-	-	-	-	-	535,053
Utilities	945,228	-	-	-	-	-	945,228
Earnings on investments	24,852	990	9	-	4,447	-	30,298
Other local	116,202	59,386	-	-	-	-	175,588
Intergovernmental – State	16,446,897	1,051,249	239,565	555,536	-	968,510	19,261,757
Intergovernmental – Federal	49,969	2,676,931	-	-	-	-	2,726,900
Total revenues	21,115,327	3,788,556	239,574	938,334	4,447	968,510	27,054,748
Expenditures							
Current:							
Instruction	13,112,235	3,489,423	-	-	-	-	16,601,658
Student support services	690,284	11,417	-	-	-	-	701,701
Instructional staff support services	572,088	108,984	-	-	-	-	681,072
District administration	890,524	-	-	-	-	-	890,524
School administration	1,046,907	-	-	-	-	-	1,046,907
Business support services	602,402	-	-	-	-	-	602,402
Plant operations and maintenance	2,399,026	-	-	-	-	-	2,399,026
Student transportation	1,975,622	-	-	-	-	-	1,975,622
Community services	57,814	250,504	-	-	-	-	308,318
Facilities acquisition and construction	-	-	-	-	73,286	-	73,286
Debt service	199,594	-	-	-	-	2,260,026	2,459,620
Total expenditures	21,546,496	3,860,328	-	-	73,286	2,260,026	27,740,136
(Deficit) excess of revenues over (under) expenditures	(431,169)	(71,772)	239,574	938,334	(68,839)	(1,291,516)	(685,388)
Other financing sources (uses)							
Proceeds from bond issuances	193,791	-	-	-	378,694	-	572,485
Operating transfers in	104,503	353,190	-	-	-	1,291,516	1,749,209
Operating transfers out	(289,901)	(281,418)	(239,574)	(938,316)	-	-	(1,749,209)
Total other financing sources (uses)	8,393	71,772	(239,574)	(938,316)	378,694	1,291,516	572,485
Net change in fund balance	(422,776)	-	-	18	309,855	-	(112,903)
Fund balance as of July 1, 2016	3,678,724	-	809	28	121,911	-	3,801,472
Fund balance as of June 30, 2017	\$ 3,255,948	\$ -	\$ 809	\$ 46	\$ 431,766	\$ -	\$ 3,688,569

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2017

Net change in total fund balances – governmental funds \$ (112,903)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which depreciation expense (\$1,128,107) exceeds capital outlays (\$560,263) and gain on disposal of capital assets (\$2,930). (564,914)

Deferred loss on bond refundings is not reported as an expenditure in the governmental fund financial statements, but is capitalized and amortized over the life of the related bonds on the statement of activities. (87,538)

Bond proceeds, net of bond issue costs, are other financing sources in the governmental fund financial statements, but are not included in the statement of activities. (583,791)

Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively. 1,815,325

Pension expense is recognized in the governmental fund financial statements as the total expenditures paid in the current year for the employer's portion of the County Employees Retirement System contributions. However, on the statement of activities, pension expense is calculated using the accrual basis of accounting which accounts for the increases and decreases in the net pension liability. 116,253

Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources. (53,354)

Change in net position – governmental activities \$ 529,078

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUND

June 30, 2017

School
Food
Service
Fund

ASSETS

Current assets

Cash

\$ 357,081

Total current assets

357,081

Noncurrent assets

Capital assets

695,109

Less accumulated depreciation

(529,247)

Total noncurrent assets

165,862

Total assets

522,943

NET POSITION

Invested in capital assets

165,862

Unrestricted

357,081

Total net position

\$ 522,943

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND**

Year ended June 30, 2017

School
Food
Service
Fund

Operating revenues

Lunchroom sales \$ 161,621

Operating expenses

Salaries, wages, and benefits 814,762
Contract services 23,846
Materials and supplies 1,032,288
Depreciation 35,880
Other 4,507

Total operating expenses 1,911,283

Operating loss (1,749,662)

Nonoperating revenues

Federal grants 1,501,383
State grants 177,950
Donated commodities 115,222
Interest income 1,405

Total nonoperating revenues 1,795,960

Change in net position 46,298

Net position as of July 1, 2016 476,645

Net position as of June 30, 2017 \$ 522,943

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year ended June 30, 2017

School
Food
Service
Fund

Cash flows from operating activities

Cash received from:

Lunchroom sales

\$ 161,621

Cash paid to/for:

Employees and contract services

(838,608)

Materials and supplies

(921,573)

Net cash used in operating activities

(1,598,560)

Cash flows from noncapital financing activities

Government grants

1,679,333

Net cash provided by noncapital financing activities

1,679,333

Cash flows from investing activities

Capital asset purchases

(5,000)

Receipt of interest income

1,405

Net cash used in investing activities

(3,595)

Net increase in cash

77,178

Cash as of July 1, 2016

279,903

Cash as of June 30, 2017

\$ 357,081

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss

\$ (1,749,662)

Adjustments to reconcile operating loss to net cash
used in operating activities:

Depreciation

35,880

Donated commodities

115,222

Net cash used in operating activities

\$ (1,598,560)

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUND

June 30, 2017

Student
Activity
Funds

ASSETS

Cash \$ 202,855

Total assets 202,855

LIABILITIES

Accounts payable 555

Due to student groups 202,300

Total liabilities 202,855

NET POSITION \$ -

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2017

1. Basis of presentation and summary of significant accounting policies

Reporting entity – The Adair County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Adair County School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of those funding source entities. However, the District is not included in any other governmental reporting entity, and its Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the District's operation. The basic financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The District's basic financial statements include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the basic financial statements of the following organization are included in the accompanying basic financial statements:

Adair County School District Finance Corporation – The Adair County, Kentucky, Board of Education established the Adair County School District Finance Corporation (Corporation) (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board members of the Adair County Board of Education also comprise the Corporation's Board of Directors.

Government-wide financial statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the District's financial activities, except for fiduciary funds. The statements distinguish between those District activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District's activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities, and each segment of the District's business-type activities. Direct expenses are those that are specifically associated with a service, program, or function. The District does not charge indirect expenses to programs or functions. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the District's general revenues.

Fund financial statements – Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each fund is presented in a separate column. Fiduciary funds are reported by fund type.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's primary operations. The fund's primary operating revenues are food service charges. Operating expenses include salaries and benefits, supplies and materials, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America require the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds. Additionally, the District has determined certain other funds should be reported as major funds.

The District has the following funds:

a. Governmental fund types

The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.

Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as capital outlay funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations). This is a major fund of the District.
2. The Facility Support Program (FSPK) Fund accounts for and reports funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The School Construction Fund accounts for and reports proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

4. The Debt Service Fund accounts for and reports expenditures for debt payments. This is a major fund of the District.

b. Proprietary fund type

The School Food Service Fund accounts for and reports school food service activities, primarily including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.

c. Fiduciary fund type

The Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds* (Redbook).

Budgetary process – The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America (GAAP).

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Inventories – Supplies and materials are charged to expense when purchased (purchases method).

Deferred loss on bond refundings – Deferred loss on bond refundings represent losses equal to the principal amount borrowed to refund the principal amount outstanding on previous bond issues. These amounts are recognized as deferred outflows of resources on the accompanying statement of net position. The amounts are amortized over the life of the new bond or the life of the refunded bond (whichever is shorter), and included in interest expense on the accompanying statement of activities.

Deferred outflows and inflows of resources related to pension expense – Deferred outflows and deferred inflows of resources related to pension expense represent District contributions to a multi-employer pension plan after the measurement date (June 30, 2016) used to account for the pension liability, the impact on pension liability related to differences between expected and actual experience, changes of assumptions, net differences between projected and actual earnings on pension plan investments, and changes in proportion and differences between District contributions and proportionate share of contributions on the accompanying statement of net position.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. There were no interfund balances as of June 30, 2017.

Capital assets – General capital assets are those assets not specifically related to activities reported in the proprietary funds. Those assets generally result from expenditures in the governmental funds and are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Effective July 1, 2013, the District maintains a capitalization threshold of \$1,000. Prior to July 1, 2013, the District maintained a capitalization threshold of \$1,000 with the exception of computers and related equipment for which there was no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	12 years

Accrued liabilities and long-term obligations – All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements if they will be liquidated with current resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Unearned revenue – Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied.

Accumulated sick leave – Sick leave benefits are calculated using the vesting method, and accrued based on the District's estimates using historical trend information in the government-wide financial statements. The current portion of the liability is estimated based on the anticipated payouts in the succeeding fiscal year.

Pensions – For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pension expense, pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund balances – The District classifies its governmental fund balances as follows:

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format or are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2017.

Restricted – This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund and the FSPK Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects. The Debt Service Fund is restricted for debt service.

Committed – This category includes funds that have been designated for future use by the Board. Only the Board may commit funds and modify or rescind the commitment. The District does not have any committed funds as of June 30, 2017.

Assigned – This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management. The District does not have any assigned funds as of June 30, 2017.

Unassigned – This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classification.

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

When the District incurs an expenditure for which restricted and unrestricted (assigned and unassigned, respectively) funds are available within a given fund, the District generally spends restricted funds first and unrestricted funds last.

Net position – Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. Amounts invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the asset's use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

Encumbrance accounting – Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Estimates – The preparation of basic financial statements in accordance with GAAP requires the District's management to make estimates and assumptions that affect reported amounts of assets, deferred outflows and deferred inflows of resources, liabilities, net position/fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Fair value measurements – The District applies fair value measurements as prescribed by the Government Accounting Standards Board (GASB) Statement No. 72 which requires entities to determine fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. This statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other GASB Standards that require or permit fair value measurements and disclosures. The guidance requires impacted assets and liabilities to be measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access. Level 2 inputs include a) quoted prices for similar assets or liabilities in inactive markets, b) quoted prices for identical or similar assets or liabilities in inactive markets, c) inputs other than quoted prices that are observable for the asset or liability, and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs. Management uses specific valuation techniques based on the available inputs to measure the fair value of the District's impacted assets and liabilities. When available, management measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

These methods may produce a fair value calculation that may not be indicative of net realizable value, or reflective of future fair values. Furthermore, while management believes the valuation methods utilized are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain assets and liabilities could result in different fair value measurements as of June 30, 2017.

Subsequent events – The District's management has evaluated subsequent events through November 9, 2017, the date which the financial statements were available for issue. No subsequent events were of such nature to require disclosure.

New accounting pronouncements – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. This statement establishes new reporting and disclosure requirements for entities that provide postemployment benefits other than retirement and establishes criteria whereas these amounts may be accrued or disclosed in entity financial statements. This statement is effective for reporting periods beginning after June 15, 2017. The District has not determined the impact this statement will have on future financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* which increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for leases that are currently accounted for as operating leases. This statement is effective for reporting periods beginning after December 15, 2019. The District has not determined the impact this statement will have on future financial statements.

2. Deposits with financial institutions

As of June 30, 2017, the carrying amount of the District's deposits with financial institutions was \$4,333,415, and its bank balances totaled \$5,223,363. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

Cash is commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and financial assistance programs, each cash amount within the following funds is considered to be restricted:

SEEK Capital Outlay Fund
Facility Support Program (FSPK) Fund
School Construction Fund
Student Activity Funds

District funds are considered to be public funds and therefore its investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

3. Taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2017 were \$.516 per \$100 valuation for real property, \$.516 per \$100 valuation for business personal property, and \$.563 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gas.

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2017 is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2017</u>
Land	\$ 946,256	\$ -	\$ -	\$ -	\$ 946,256
Buildings and improvements	44,117,422	197,904	-	-	44,315,326
Technology equipment	438,070	171,548	-	-	609,618
Vehicles	4,432,395	174,760	917,136	-	3,690,019
General equipment	<u>978,642</u>	<u>16,051</u>	<u>6,462</u>	<u>-</u>	<u>988,231</u>
Total cost	50,912,785	560,263	923,598	-	50,549,450
Less accumulated depreciation:					
Buildings and improvements	11,426,524	890,498	-	-	12,317,022
Technology equipment	356,491	70,070	-	-	426,561
Vehicles	3,650,074	150,530	923,782	-	2,876,822
General equipment	<u>856,182</u>	<u>17,009</u>	<u>2,746</u>	<u>-</u>	<u>870,445</u>
Total accumulated depreciation	<u>16,289,271</u>	<u>1,128,107</u>	<u>926,528</u>	<u>-</u>	<u>16,490,850</u>
Governmental activities net capital assets	<u>\$ 34,623,514</u>	<u>\$ (567,844)</u>	<u>\$ (2,930)</u>	<u>\$ -</u>	<u>\$ 34,058,600</u>

<u>Business-Type Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2017</u>
Food service equipment	\$ 690,109	\$ 5,000	\$ -	\$ -	\$ 695,109
Less accumulated depreciation	<u>493,367</u>	<u>35,880</u>	<u>-</u>	<u>-</u>	<u>529,247</u>
Business-type activities net capital assets	<u>\$ 196,742</u>	<u>\$ (30,880)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,862</u>

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 307,749
Instructional staff support services	75
District administration	12,242
School administration	14,586
Business support services	595
Plant operations and maintenance	615,758
Student transportation	<u>177,102</u>
Total depreciation expense	<u>\$ 1,128,107</u>

5. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Adair County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rate are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2005	\$ 11,240,000	2.55 – 4.25%
2006 KISTA	337,705	3.50 – 3.875%
2006 Energy	500,000	4.00 – 4.50%
2008 KISTA	239,118	3.00 – 3.75%
2009	2,530,000	2.00 – 3.25%
2010 KISTA	197,949	2.00 – 3.60%
2011 KISTA	172,266	1.00 – 4.00%
2013	12,885,000	2.00 – 3.125%
2013 KISTA	1,076,302	2.00 – 2.25%
2013	9,010,000	1.00 – 2.25%
2014 KISTA	184,953	2.00%
2014 KISTA	185,889	2.00 – 3.00%

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2015 KISTA	\$ 250,933	1.00 – 2.625%
2015	1,065,000	1.00 – 3.60%
2016	1,525,000	3.05%
2016 KISTA	186,608	2.00 – 2.625%
2017 KISTA	193,791	2.55%
2017	390,000	3.00 – 4.00%

The District, through the General Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Adair County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

For the 2005, 2009, and 2013 (two issues) bond issues, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2017 for debt service (principal and interest) are as follows:

<u>Fiscal Year Ending</u>	<u>Adair County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	\$ 1,056,423	\$ 453,884	\$ 777,359	\$ 191,149	\$ 2,478,815
2019	1,052,197	430,319	792,318	176,191	2,451,025
2020	1,081,893	406,530	809,371	159,138	2,456,932
2021	1,092,815	379,744	790,143	140,758	2,403,460
2022	1,102,687	353,302	704,870	124,152	2,285,011
2023	1,134,477	327,323	720,177	108,846	2,290,823
2024	1,152,972	300,427	735,820	93,204	2,282,423
2025	930,371	274,976	752,250	76,771	2,034,368
2026	926,999	250,809	628,062	60,659	1,866,529
2027	935,015	224,905	237,290	49,752	1,446,962
2028	895,723	197,603	244,277	42,766	1,380,369
2029	923,283	170,142	251,717	35,326	1,380,468

Fiscal Year Ending	Adair County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2030	\$ 955,616	\$ 141,756	\$ 259,384	\$ 27,659	\$ 1,384,415
2031	982,716	112,338	267,284	19,759	1,382,097
2032	1,014,436	81,580	275,564	11,479	1,383,059
2033	1,044,353	49,273	230,647	3,604	1,327,877
2034	315,000	28,340	-	-	343,340
2035	320,000	17,948	-	-	337,948
2036	295,000	8,060	-	-	303,060
2037	55,000	2,200	-	-	57,200
	<u>\$ 17,266,976</u>	<u>\$ 4,211,459</u>	<u>\$ 8,476,533</u>	<u>\$ 1,321,213</u>	<u>\$ 31,276,181</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2017 is as follows:

Issue	Balance July 1, 2016	Additions	Payments	Balance June 30, 2017
School Building Revenue Bonds:				
2005	\$ 565,000	\$ -	\$ 565,000	\$ -
2009	1,370,000	-	265,000	1,105,000
2013	12,255,000	-	220,000	12,035,000
2013	8,500,000	-	240,000	8,260,000
2015	1,005,000	-	65,000	940,000
2016	1,525,000	-	40,000	1,485,000
2017	-	390,000	-	390,000
Energy Bonds:				
2006	375,000	-	22,000	353,000
KISTA Bonds:				
2006	33,913	-	33,913	-
2008	45,589	-	22,374	23,215
2010	78,748	-	20,403	58,345
2011	84,938	-	17,305	67,633
2013	430,500	-	197,000	233,500
2014	126,497	-	17,912	108,585
2014	145,243	-	17,611	127,632
2015	223,732	-	27,298	196,434
2016	186,608	-	20,234	166,374
2017	-	193,791	-	193,791
Totals	<u>\$ 26,950,768</u>	<u>\$ 583,791</u>	<u>\$ 1,791,050</u>	<u>\$ 25,743,509</u>

6. Accumulated unpaid sick leave benefits

Upon retirement from the District, eligible employees will receive an amount equal to 30% of the value of accumulated sick leave.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the accumulated sick leave payable account in the General Fund. The noncurrent portion of the liability is not reported.

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2017 is as follows:

Balance as of July 1, 2016	\$ 740,193
Additions	300,837
Less payments/forfeitures	<u>207,488</u>
Balance as of June 30, 2017	833,542
Less current portion	<u>66,493</u>
Noncurrent portion	<u>\$ 767,049</u>

7. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2017 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

8. Retirement plans

District employees are provided with two pension plans based on each position's college degree requirement. The County Employees Retirement System (CERS) covers employees whose position does not require a college degree or teaching certification. The Teachers' Retirement System of the State of Kentucky (TRS) covers positions requiring teaching certification or otherwise requiring a college degree.

General information about CERS

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <https://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, and death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least five years of service and 55 years old, or at least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least five years of service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least ten years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least five years of service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

Contributions – Required contributions as determined by the Kentucky Retirement System Board of Trustees by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District matches at a rate of 18.68% (17.06% for 2016, used in measurement period) of the employee's total covered compensation. The District's matching contributions total \$591,156 (\$556,183 for 2016, used in measurement period) for the year ended June 30, 2017.

General information about the Teachers' Retirement System of the State of Kentucky

Plan description – The District's teaching certified employees and certain other employees whose positions require at least a college degree are provided pensions through TRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky, and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://www.trs.ky.gov/financial-reports-information>.

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either attain age fifty-five and complete five years of Kentucky service, or complete 27 years of Kentucky service.

Employees who retire before age 60 with less than 27 years of service receive reduced retirement benefits. Employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. Employees hired (including second retirement accounts) after July 1, 2002 and before July 1, 2008, will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. Employees hired after July 1, 2002 and before July 1, 2008 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Employees hired after July 1, 2008 will receive monthly benefits equal to 1.7% of their final average salary for each year of service if, upon retirement, their total service is less than ten years; 2% if their years of service are ten to twenty years; 2.5% if their years of service are twenty to twenty-five years; and 2.5% if their years of service exceed 26 years.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the Kentucky General Assembly.

Contributions – Contribution rates are established by KRS. Employees are required to contribute 12.855% (12.855% for 2016, used in measurement period) of their salaries to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for employees hired before July 1, 2008, and 14.105% for those hired after July 1, 2008. For employees whose salaries are federally funded, the District contributes 16.105% (16.105% for 2016, used in measurement period) of salaries. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the employee's request.

Other retirement plans

The District also offers employees the option to participate in voluntary tax-deferred compensation retirement plans as provided by the Adair County Board of Education 403(b) Plan, and by the Kentucky Public Employees' Deferred Compensation Program which administers 401(k) plans sponsored by the Commonwealth of Kentucky. All regular full-time

and part-time employees are eligible to participate and may contribute up to the maximum amount allowable under Sections 403(b), 401(k), and 457 of the Internal Revenue Code. Members contributed approximately \$109,000 during the year ended June 30, 2017. The District does not contribute to these plans.

Medical insurance plan

Plan description – In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple-employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance, and the Kentucky General Assembly.

To be eligible for medical benefits, the employee must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, 6% of the gross annual payroll of all certified employees is contributed. 3% of the amount is paid by employee contributions and 3% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the plan's medical expenses.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

As of June 30, 2017, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on the District's behalf. The approximate amount recognized by the District and the Commonwealth of Kentucky as its proportionate share of the net pension liability were as follows:

District's proportionate share of the CERS net pension liability	\$ 6,477,000
Commonwealth's proportionate share of the TRS net liability associated with the District	97,120,000

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportionate share of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of CERS as determined by the actuary. As of June 30, 2016, the District's proportion was 0.13%.

For the year ended June 30, 2017, the District recognized pension expense totaling approximately \$475,000 related to CERS.

The District reported deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 64,697	\$ -
Changes of assumptions	785,042	-
Net difference between projected and actual earnings on pension plan investments	648,155	271,200
Changes in proportion and differences between District contributions and proportionate share of contributions	207,512	-
District contributions subsequent to the measurement date	<u>591,156</u>	<u>-</u>
Total	<u>\$ 2,296,562</u>	<u>\$ 271,200</u>

Deferred outflows and deferred inflows related to pension expense will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2018	\$ 960,889	\$ 90,400
2019	369,733	90,400
2020	369,733	90,400
2021	369,731	-
2022	226,476	-

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>TRS</u>
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0 – 8.2%
Investment rate of return, net of investment expense and inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For TRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of one year for females.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined equity	44.0%	5.40%
Combined fixed income	19.0%	1.50%
Real return (Diversified inflation strategies)	10.0%	3.50%
Real estate	5.0%	4.50%
Absolute return (Diversified hedge funds)	10.0%	4.25%
Private equity	10.0%	8.50%
Cash equivalent	2.0%	(0.25)%
Total	100%	

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	45.0%	6.4%
Non U.S. equity	17.0%	6.5%
Fixed-income	24.0%	1.6%
High yield bonds	4.0%	3.1%
Real estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	<u>2.0%</u>	1.5%
Total	<u>100.0%</u>	

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Kentucky Retirement Systems Comprehensive Annual Financial Report.

For TRS, the discount rate used to measure the total pension liability was 4.20%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates, and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Investment Rate (SEIR). There was a change in the Municipal Bond Index Rate from the prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the

Measurement Date of 4.20% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.01%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate – The following table presents the District's net pension liability calculated, using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's approximate proportionate share of net pension liability	8,071,000	6,477,000	5,110,000
TRS	3.20%	4.20%	5.20%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and TRS.

9. On-behalf payments for fringe benefits and other District expenditures

The District receives on-behalf payments for fringe benefits and other District expenditures from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances:

Retirement contributions to TRS	\$ 1,598,024
Health and life insurance	2,963,786
Technology	70,457
Debt service	<u>968,510</u>
Total	<u>\$ 5,600,777</u>

10. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, workers compensation, unemployment, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

11. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the General Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

12. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss contingency.

13. Transfer of funds

The following transfers were made during the year ended June 30, 2017:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching	\$ 71,772
Operating	General	Debt Service	Debt payments	218,129
Operating	Special Revenue	Special Revenue	Reallocation	281,418
Operating	Capital Outlay	General	Administrative	104,503
Operating	Capital Outlay	Debt Service	Debt payments	135,071
Operating	FSPK	Debt Service	Debt payments	938,316

14. Interfund receivables and payables

There were no interfund receivables or payables as of June 30, 2017.

SUPPLEMENTARY INFORMATION

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND Year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Taxes:				
Property	\$ 2,940,000	\$ 2,940,000	\$ 2,997,126	\$ 57,126
Motor vehicle	441,185	441,185	535,053	93,868
Utilities	890,000	890,000	945,228	55,228
Earnings on investments	10,000	10,000	24,852	14,852
Other local	10,500	10,500	116,202	105,702
Intergovernmental – State	16,306,369	15,937,287	16,446,897	509,610
Intergovernmental – Federal	40,000	60,000	49,969	(10,031)
Total revenues	20,638,054	20,288,972	21,115,327	826,355
Expenditures				
Current:				
Instruction	12,072,559	12,058,944	13,112,235	(1,053,291)
Student support services	784,889	784,056	690,284	93,772
Instructional staff support services	654,096	652,364	572,088	80,276
District administration	1,281,207	1,281,207	890,524	390,683
School administration	1,019,644	1,012,767	1,046,907	(34,140)
Business support services	440,848	440,848	602,402	(161,554)
Plant operations and maintenance	2,435,140	3,010,993	2,399,026	611,967
Student transportation	1,973,864	2,034,936	1,975,622	59,314
Community services	130,759	130,759	57,814	72,945
Contingency	2,609,033	1,784,243	-	1,784,243
Debt service	199,604	199,604	199,594	10
Total expenditures	23,601,643	23,390,721	21,546,496	1,844,225
(Deficit) excess of revenues over (under) expenditures	(2,963,589)	(3,101,749)	(431,169)	2,670,580
Other financing sources (uses)				
Proceeds from bond issuance	-	-	193,791	193,791
Operating transfers in	41,341	41,341	104,503	63,162
Operating transfers out	(277,782)	(239,592)	(289,901)	(50,309)
Total other financing (uses) sources	(236,411)	(198,251)	8,393	206,644
Net change in fund balance	(3,200,000)	(3,300,000)	(422,776)	2,877,224
Fund balance as of July 1, 2016	3,678,724	3,678,724	3,678,724	-
Fund balance as of June 30, 2017	<u>\$ 478,724</u>	<u>\$ 378,724</u>	<u>\$ 3,255,948</u>	<u>\$ 2,877,224</u>

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS Year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 990	\$ 990
Other local	31,900	31,900	59,386	27,486
Intergovernmental – State	1,103,276	1,032,220	1,051,249	19,029
Intergovernmental – Federal	<u>2,460,951</u>	<u>2,271,661</u>	<u>2,676,931</u>	<u>405,270</u>
Total revenues	3,596,127	3,335,781	3,788,556	452,775
Expenditures				
Current:				
Instruction	3,086,927	3,018,014	3,489,423	(471,409)
Student support services	14,562	14,130	11,417	2,713
Instructional staff support services	328,970	83,673	108,984	(25,311)
Student transportation	500	-	-	-
Community services	<u>224,790</u>	<u>222,350</u>	<u>250,504</u>	<u>(28,154)</u>
Total expenditures	<u>3,655,749</u>	<u>3,338,167</u>	<u>3,860,328</u>	<u>(522,161)</u>
(Deficit) excess of revenues (under) over expenditures	(59,622)	(2,386)	(71,722)	(69,386)
Other financing sources (uses)				
Operating transfers in	78,567	21,462	353,190	331,728
Operating transfers out	<u>(18,945)</u>	<u>(19,076)</u>	<u>(281,418)</u>	<u>(262,342)</u>
Total other financing sources (uses)	<u>59,622</u>	<u>2,386</u>	<u>71,722</u>	<u>69,386</u>
Net change in fund balance	-	-	-	-
Fund balance as of July 1, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Years ended June 30, 2017, 2016, and 2015

District's proportion of the net pension liability

2017 (2016 measurement period)	0.13%
2016 (2015 measurement period)	0.13%
2015 (2014 measurement period)	0.12%

District's proportionate share of the net pension liability

2017 (2016 measurement period)	\$ 6,476,613
2016 (2015 measurement period)	5,478,365
2015 (2014 measurement period)	4,047,000

District's covered-employee payroll

2017 (2016 measurement period)	\$ 3,260,158
2016 (2015 measurement period)	2,958,806
2015 (2014 measurement period)	2,854,426

District's proportionate share of the net pension liability
as a percentage of its covered-employee payroll

2017 (2016 measurement period)	198.66%
2016 (2015 measurement period)	185.15%
2015 (2014 measurement period)	141.78%

Plan fiduciary net position as a percentage of the
total pension liability

2017 (2016 measurement period)	55.50%
2016 (2015 measurement period)	59.97%
2015 (2014 measurement period)	66.80%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS –
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years ended June 30, 2017, 2016, and 2015**

Contractually required contribution	
2017 (2016 measurement period)	\$ 556,183
2016 (2015 measurement period)	525,484
2015 (2014 measurement period)	539,201
Contributions in relation to the contractually required contribution	
2017 (2016 measurement period)	\$ 556,183
2016 (2015 measurement period)	525,484
2015 (2014 measurement period)	539,201
Contribution deficiency (excess)	
2017 (2016 measurement period)	\$ -
2016 (2015 measurement period)	-
2015 (2014 measurement period)	-
District's covered-employee payroll	
2017 (2016 measurement period)	\$ 3,260,158
2016 (2015 measurement period)	2,958,806
2015 (2014 measurement period)	2,854,426
Contributions as a percentage of covered-employee payroll	
2017 (2016 measurement period)	17.06%
2016 (2015 measurement period)	17.76%
2015 (2014 measurement period)	18.89%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – COUNTY EMPLOYEES
RETIREMENT SYSTEM

Year ended June 30, 2017

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2016 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2015), the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated.

Assets accumulated in trust – There are no assets accumulated in trust that meets the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for three fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY –TEACHERS' RETIREMENT SYSTEM**
Years ended June 30, 2017, 2016, and 2015

Commonwealth of Kentucky's proportion of the
net pension liability

2017 (2016 measurement period)	0.31%
2016 (2015 measurement period)	0.31%
2015 (2014 measurement period)	0.33%

Commonwealth of Kentucky's proportionate share
of the net pension liability

2017 (2016 measurement period)	\$ 97,119,960
2016 (2015 measurement period)	76,497,627
2015 (2014 measurement period)	71,029,005

Plan fiduciary net position as a percentage of the
total pension liability

2017 (2016 measurement period)	35.22%
2016 (2015 measurement period)	42.49%
2015 (2014 measurement period)	45.59%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S CONTRIBUTIONS –TEACHERS'
RETIREMENT SYSTEM**

Years ended June 30, 2017, 2016, and 2015

Commonwealth of Kentucky statutorily required contribution	
2017 (2016 measurement period)	\$ 1,598,024
2016 (2015 measurement period)	1,582,073
2015 (2014 measurement period)	1,673,820
Commonwealth of Kentucky contributions in relation to the statutorily required contribution	
2017 (2016 measurement period)	\$ 1,598,024
2016 (2015 measurement period)	1,582,073
2015 (2014 measurement period)	1,673,820
Commonwealth of Kentucky annual contribution deficiency (excess)	
2017 (2016 measurement period)	\$ -
2016 (2015 measurement period)	-
2015 (2014 measurement period)	-

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –TEACHERS' RETIREMENT
SYSTEM**

Year ended June 30, 2017

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2016 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2015) the demographic and economic assumptions that affect the measurement of total pension liability have not been updated.

Assets accumulated in trust – There are no assets accumulated in trust that meet the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for three fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available. Since the Commonwealth of Kentucky makes all required pension contributions, the District has not included any District amounts in the required supplementary information.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS

Year ended June 30, 2017

<u>School</u>	<u>Cash</u> <u>July 1,</u> <u>2016</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2017</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2017</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2017</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2017</u>
Adair County Primary Center	\$ 17,057	\$ 84,340	\$ 82,776	\$ 18,621	\$ -	\$ -	\$ 18,621
Adair County Elementary School	30,834	37,679	38,882	29,631	-	-	29,631
Adair County Middle School	42,868	96,535	84,715	54,688	-	-	54,688
Totals	\$ 90,759	\$ 218,554	\$ 206,373	\$ 102,940	\$ -	\$ -	\$ 102,940

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS
 Year ended June 30, 2017

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
Accel Academy	\$ -	\$ 1,769	\$ 1,721	\$ 48	\$ -	\$ -	\$ 48
ACHS Classroom	246	-	-	246	-	-	246
Art	619	842	294	1,167	-	-	1,167
Athletics	16,866	110,705	83,699	43,872	-	-	43,872
Beta Club	162	1,280	1,421	21	-	-	21
Business co-op	581	-	-	581	-	-	581
Champions and SADD	133	294	93	334	-	-	334
Chemistry	214	-	35	179	-	-	179
Class 2017	2,358	17,300	19,658	-	-	-	-
Class 2018	648	13,834	11,174	3,308	-	-	3,308
Class 2019	115	2,729	2,243	601	-	-	601
Class 2020	1,422	28	-	1,450	-	-	1,450
Counselors office	329	675	715	289	-	-	289
Counselors events	927	7,807	8,734	-	-	-	-
Criminal records check	40	110	120	30	-	-	30
Drama	3,646	6,796	6,714	3,728	-	-	3,728
Earth Science	73	-	-	73	-	-	73
English activities	301	134	159	276	-	-	276
FBLA	-	580	580	-	-	-	-
FCA-Fellowship	-	-	-	-	-	-	-
Christian Athletes	-	2,782	1,740	1,042	-	-	1,042

(continued)

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2017

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
FCCLA	\$ 688	\$ 360	\$ 514	\$ 534	\$ -	\$ -	\$ 534
FFA	5,511	33,985	36,959	2,537	-	-	2,537
FFA banquet	57	1	-	58	-	-	58
General	409	2,608	2,593	424	-	-	424
Grit team	273	-	273	-	-	-	-
Horticulture	13,108	12,750	13,900	11,958	-	-	11,958
HOSA/Medical career	108	-	108	-	-	-	-
Indian Academy	4,612	-	1,207	3,405	-	-	3,405
Lay Indians Basketball	-	3,547	1,419	2,128	-	-	2,128
Language	155	154	208	101	-	-	101
Library	1,158	-	799	359	-	-	359
Lost and damaged books	20	60	-	80	-	80	-
Math	600	-	-	600	-	-	600
NAHS – Fine Arts	448	1,083	1,027	504	-	-	504
National Honor Society	952	690	1,354	288	-	-	288
Office workers	745	-	400	345	-	-	345
Orchestra	468	5,513	4,599	1,382	-	-	1,382
Pep	424	630	326	728	-	-	728
Reliford's "A" Team	1,482	2,131	1,308	2,305	-	-	2,305

(continued)

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2017

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
Jr ROTC Program	\$ -	\$ 965	\$ 965	\$ -	\$ -	\$ -	-
Stem Club	254	1,337	608	983	-	-	983
Softball	-	1,357	-	1,357	-	-	1,357
STLP	270	-	217	53	-	-	53
Student Coke	1,386	3,543	2,301	2,628	-	75	2,553
Student parking	298	-	-	298	-	-	298
Teachers' lounge							
Coke	338	1,554	1,659	233	-	-	233
Tennis	24	391	404	11	-	-	11
Testing (ACT Prep)	-	900	900	-	-	-	-
Track	20	8,122	7,523	619	-	-	619
Volleyball	1,844	12,896	11,921	2,819	-	-	2,819
Yearbook	7,504	17,315	18,886	5,933	-	400	5,533
Totals	71,836	279,557	251,478	99,915	-	555	99,360
Interfund transfers	-	5,372	5,372	-	-	-	-
Totals	\$ 71,836	\$ 274,185	\$ 246,106	\$ 99,915	\$ -	\$ 555	\$ 99,360

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100102-16	\$ 33,607
		3100102-15	2,179
		3100002-16	1,293,353
		3100002-15	126,575
		3100002-14	4,446
Subtotal			1,460,160
Migrant Education	84.011	3110002-16	61,445
		3110002-15	67,444
Subtotal			128,889
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	313C	22,790
Special Education	84.027 *1	3810002-16	364,753
		3810002-15	237,320
Subtotal			602,073
Career and Technical Education	84.048	3710002-16	28,021
		3710002-15	1,831
Subtotal			29,852
Special Education Preschool	84.173 *1	3800002-15	7,076
		3800002-14	19,907
		3800002-13	237
Subtotal			27,220
Rural Education	84.358	3140002-16	53,198
		3140002-15	1,381
Subtotal			54,579
English Language Acquisition	84.365	3300002-16	1,963
		3300002-15	4,722
Subtotal			6,685

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
21 st Century Community Learning Centers	84.287	3400002-15 3400002-14	\$ 165,026 86,409 <u>251,435</u>
Subtotal			
Race to the Top	84.413	436C 436B	91,260 1,832 <u>93,092</u>
Subtotal			
Total U.S. Department of Education			2,676,775
<u>Department of Health and Human Services</u>			
Lake Cumberland Area Development for Block Grants:			
Block Grants for Community Mental Health Services	93.958	690C	<u>763</u>
Total Department of Health and Human Services			763
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education:			
National School Lunch Program	10.555 *2	7750002-17 7750002-16	843,697 247,689 <u>1,091,386</u>
Subtotal			
National School Breakfast Program	10.553 *2	7760005-17 7760005-16	324,608 74,669 <u>399,277</u>
Subtotal			
Summer Food Service Program for Children	10.559 *2	7690024-16 7740023-16	1,000 9,720 <u>10,720</u>
Subtotal			
Total U.S. Department of Agriculture			<u>1,501,383</u>

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Total cash expenditures			\$ 4,178,921
Non-cash expenditures			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture:			
Food Donation	10.555 *2	Not provided	<u>115,222</u>
Total federal expenditures			<u>\$ 4,294,143</u>

*1 Special Education Cluster	Total	<u>\$ 629,293</u>
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*2 Child Nutrition Cluster	Total	<u>\$ 1,616,605</u>
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See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

1. Basis of presentation

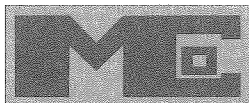
The accompanying schedule of expenditures of federal awards includes the federal award activity of the Adair County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Food donation

Nonmonetary assistance for food donation is reported in the schedule at the fair value of the commodities disbursed. The donations are received from the U.S. Department of Agriculture via the Kentucky Department of Agriculture (KDA). The KDA has not provided a pass-through grant number.

3. Indirect cost rate

The District does not apply the 10% de minimus indirect cost rate.



**M A T H E R
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SOLUTION-DRIVEN CPAs and Business Advisors

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comment Spreadsheet*, the financial statements of the governmental activities, the business-type activities, and each major fund of the Adair County School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Kentucky Public School Districts' Audit Contract and Requirements – State Compliance Requirements*.

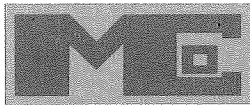
We noted certain other matters that we reported to the District's management in a separate letter dated November 9, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 9, 2017



**M A T H E R
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SOLUTION-DRIVEN CPAs and Business Advisors

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Adair County School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards application to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to*

Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comment Spreadsheet. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 9, 2017

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

Material weakness identified

_____ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses

_____ Yes ☒ None reported

Noncompliance material to financial
statement notes

_____ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weaknesses identified

_____ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses

_____ Yes ☒ None reported

Type of auditor's report issued on compliance for
major programs

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with Section 200.516
of the Uniform Guidance

_____ Yes ☒ No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

10.553/10.555/10.559

Child Nutrition

Dollar threshold used to distinguish
between Type A and Type B program

\$ 750,000

Auditee qualified as low risk

☒ Yes _____ No

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
Year ended June 30, 2017

Section II – Financial Statement Findings

No matters to report.

Section III – Federal Award Findings

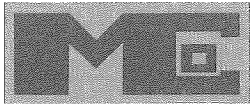
No matters to report.

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2017

There were no prior year audit findings.



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SOLUTION-DRIVEN CPAs and Business Advisors

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Members of the Board of Education
Adair County School District
Columbia, Kentucky

In planning and performing our audit of the financial statements of the Adair County School District (District) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comment Spreadsheet*, we considered the District's internal control over financial reporting and compliance to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting. In addition, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 9, 2017 on the District's financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 9, 2017

ADAIR COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2017**

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Other Issues Relating to Internal Controls and General Accounting Procedures	70

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

Follow-up on Prior Year Findings

ADAIR COUNTY ELEMENTARY SCHOOL

Prior year comment: We noted ten instances where multiple receipt forms were not used when money was received.

Current year follow-up: No such instances were noted in the current year.

Current Year Findings

ADAIR COUNTY MIDDLE SCHOOL

Statement of deficiency: We noted an activity fund balance was negative at the end of the year.

Criteria for the deficiency: This is not in compliance with Redbook guidelines.

Cause of the deficiency: Redbook guidelines were not followed.

Effect of the deficiency: Redbook guidelines require that all activity funds have a positive fund balance at end of fiscal year.

Recommendation for correction: District personnel should not write a check from a fund with less than sufficient funds to cover the amount. If appropriate, funds could be transferred from another fund prior to writing the aforementioned check.

Board response: The bookkeeper was off and the Principal and Assistant Principal wrote the check for a field trip. The check was written for more than what was in the club's account. The sponsor was notified and asked to bring in the monies to deposit before June 30th. The sponsor failed to bring it in until after July 1. The Superintendent and Finance Office have spoken to the Principal and Bookkeeper. No checks are to be written without the Bookkeeper's knowledge and no checks are to be written if there are not funds to cover the check. The finance office sent out an email reminding the Principals and Bookkeepers to please follow the Redbook guidelines at all times.

OTHER ISSUES RELATING TO INTERNAL CONTROL AND GENERAL ACCOUNTING PROCEDURES

Follow-up on Prior Year Finding

There were no prior year findings.

Current Year Findings

There are no current year findings.